September 4, 2018

Seema Balwada, CFA
[redacted]

Rob Bishop of Utah
Chairman
U.S. House of Representatives
Committee on Natural Resources
Washington D.C. 20515

CC: Judge Laura Taylor Swain
U.S. District Court for the District of Puerto Rico
Fed. Court of PR Office 150, Fed. Building
San Juan, Puerto Rico 00918

CC: The Bank of New York Mellon
Attn: Mr. Alex Chang
101 Barclay Street, New York, NY 10286

RE: Commonwealth vs. COFINA Settlement Proposal

PROFIT MOTIVATED SELF-DEALING CONFLICTED BONDHOLDERS MEDIATING THIS DISPUTE APPEAR TO HAVE MANIPULATED THE SETTLEMENT PROPOSAL… THEY HAVE ACQUIRED SECURITIES BASED ON MATERIAL NON PUBLIC CONFIDENTIAL MEDIATION INFORMATION APPARENTLY IN ORDER TO MANIPULATE THE SETTLEMENT VOTE IN THEIR FAVOR

Dear Congressman Bishop,

Self-dealing by mediating groups amid conflicts of interest and lack of transparency in the ongoing mediation of the Puerto Rico's gating Commonwealth-COFINA dispute should cause great concern to the U.S. Government.

With confidential material non-public information on recovery prospects in hand, mediating team members appear to have advantageously purchased Puerto Rico Subordinate sales tax secured COFINA bonds over the last year. Recently, a bond insurer seems to have provided false representations on its COFINA bond holdings to the public. These actions would be a breach of trust intended to manipulate a settlement vote.

As an Analyst, I would like retail bondholders to understand that the Settlement Agreement approved by the Oversight Board crams down the retail bondholder while Wall Street hedge funds, previously called vultures by Puerto Rico, profit and a corrupt Commonwealth walks away with the retail bondholders' property interest in pledged sales and use tax.

Bond insurers and hedge funds as part of the court appointed Mediation Team are privy to 'confidential' material information on the largest municipal bankruptcy in history. Court led confidential voluntary

mediations began in June 2017 ("Mediation"). On August 30, 2018, the Oversight Board approved an In-Principle Settlement Agreement between the Commonwealth Agent and COFINA Agent dated June 8, 2018 ("Settlement Agreement").

The Board approved Settlement Agreement lists support to be signed by large Wall Street institutions that hold estimated $4.65 billion of COFINA Subordinate Bonds or 48% of $9.7 billion outstanding COFINA Subordinate Bonds. They have unethically bought significant amounts of COFINA Subordinate Bonds at rock bottom prices within the last year. These large Wall Street institutions own various other Puerto Rico bonds that would benefit by short-changing COFINA Subordinate bondholders. As part of the Mediation they support a low 56% recovery on COFINA Subordinate Bonds. The proposed settlement delivers numerous financial benefits to these mediating team members but leaves the 'buy and hold' retail investor out in the cold.

Between August 2018 and August 2017, the COFINA Seniors Coalition purchased $1.1 billion dollars of COFINA Subordinate Bonds at rock bottom prices. Concurrently with the Mediation, the COFINA Seniors Coalition supported a General Obligation bondholder low ball recovery proposal of as little as 42 cents for COFINA Subordinate Bonds and 93 cents for COFINA Senior Bond. On May 14, 2018 the COFINA Seniors Coalition proposed transferring 46% of the COFINA pledged 5.5% sales and use tax away from COFINA at the expense of Subordinate bondholders. "It is an extremely positive development for Puerto Rico and its citizenry that the court-appointed agents have reached a negotiated settlement ahead of a litigated outcome," stated Miller Buckfire & Co financial advisor to the COFINA Seniors Coalition referring to the Settlement Agreement that also transfers 46% of the COFINA pledged sales and use tax to the Commonwealth targeting a 56% recovery for COFINA Subordinate Bonds and 93% for COFINA Senior Bonds.

COFINA Seniors Coalition hold an aggregate of $1.78 billion COFINA Subordinate Bonds: over $1.1 billion were purchased at deeply discounted prices when COFINA bond prices hit rock bottom between August 2017 and August 2018 (Please see Exhibit A). These COFINA Subordinate Bond buys were premised on the 'confidential' mediation talks between COFINA Seniors Coalition and other mediating team members. As mediating team members, the COFINA Seniors Coalition, were actively manipulating the mediations being aware that even a low ball 40 cent recovery on COFINA Subordinate Bonds could be significantly profitable given their low-cost basis purchases of COFINA Subordinate Bonds and a homerun on their COFINA Senior bond holdings.

The retail bondholder, who has no part in the 'confidential' court mediation, is being taken for a ride. Retail bondholders, who own the vast majority of COFINA Subordinate Bonds, are traditionally 'buy and hold' investors. Unlike the Wall Street vulture funds, most retail investors purchased COFINA Subordinate Bonds for the tax-free income at high market prices as COFINA Subordinate Bonds were issued with a rating of Moodys "A2" S&P "A+" and Fitch "A". When Wall Streets' vulture funds seek a low ball recovery of 40 cents after buying the bond at mid-teens or less, it is a form of self-dealing that cuts at the integrity of the United States financial markets.

Equally, it is shocking that AMBAC appears to have has misrepresented its COFINA positions. On August 30, 2018, AMBAC represented that it insures COFINA Senior Bonds and holds 58% of AMBAC insured COFINA senior bonds. AMBAC failed to mention that it also holds $1 billion COFINA Subordinate Bonds

(COFINA Junior Current Interest Bonds at 44 cents on the dollar and COFINA Junior Capital Appreciation Bonds at a meager 11 cents on the dollar per its June 30, 2018 SEC disclosure). Whether AMBAC omitted to disclose that it holds $1 billion COFINA Junior Bonds or if it already sold COFINA Junior Bonds during mediations is unknown. It reveals a disturbing inconsistency - the lack of transparency in the court mediations has led some mediating team members towards self-dealing or self-serving.

This is not the first time that inconsistencies in the conduct of the mediation team have cropped up. On November 20, 2017, Judge Barbara Housum complained that the <u>"confidential nature of the mediation process was breached on several occasions</u>." "I ask Judges Swain and Dein to adopt a zero-tolerance policy with respect to mediations," Judge Barbara Housum added that the mediation process should not be used as a sword or a shield in court proceedings. As mediating team members, the COFINA Seniors Coalition have been in a superior position to gauge and steer recovery prospects: this information formed the basis for buying at least $1.1 billion COFINA Subordinate Bonds at deep discounts between August 2017 and August 2018.

The mediation team was formed on June 14, 2017. Judge Swain appointed Chief Judge Barbara Houser of the U.S. bankruptcy court for Texas' northern district to lead a team of five federal judges stating that all settlement negotiations will be confidential.

A rule of thumb in securities markets: When there is an information asymmetry owing to confidential mediations, mediating team members are asked to restrict bond trades of disputed securities so that no one has an unfair advantage. In Puerto Rico's debt restructuring, some mediating team members appear to have taken an unfair advantage of a seat at the bargaining table. Mediating team members themselves have been concurrently trading on confidential or insider information while mediating under confidentiality. <u>How could this information asymmetry be fair to the unrepresented retail investor who relies solely on public information to buy and sell bonds.</u>

It is odd that the Board approved Settlement Agreement enlists the Bonistas del Patio, a group of Islanders holding PR debt to solicit support from other Island bondholders. Bonistas hold about $15 billion of the Island's $70 billion debt pile. Only a third of Bonistas' PR debt holdings are COFINA Bonds. I urge the Bond Trustee to examine the basis on which the Oversight Board and Bonistas del Patio have agreed to coerce the Island's retail investors to cast supporting votes. <u>Ill-advised retail bondholders including Islanders should not be misled by conflicted mediating team members' self-interests.</u>

The Board approved Settlement Agreement must publicly disclose COFINA bond purchase prices and purchase dates of parties that support the Settlement Agreement. This information would be self-explanatory as to the motivations of the hedge funds' seeking to transfer 46% of COFINA property away from retail bondholders to a corrupt Commonwealth that over the last 12 years repeatedly stated that COFINA funds dedicated to bondholders are not available to the Commonwealth.

When asked to vote on a 56% recovery on COFINA Subordinate Bonds, which is the outcome of an unfair transfer of 46% of the 5.5% pledged sales and use tax away from COFINA, I intend to Vote '<u>NO</u>'.

I believe, retail COFINA Subordinate Bondholders are likely to vote in favor of a recovery rate that compensates for risk-reward and fits within market benchmarks for secured debt and reject the current offer - a one-sided deal favoring large institutional holders' profit motives and their other Puerto Rico holdings.

The 36-point recovery differential between COFINA Senior and Subordinate Bonds is unjustified

The Settlement Agreement is not fair because the COFINA Agency is a solvent entity. Both COFINA Senior and Subordinate bonds are sufficiently secured by a statutory lien on pledged sales tax without any recourse to other assets. Both COFINA Senior and Subordinate Bonds were issued under the same Bond Indenture and COFINA Enabling Legislation. The United States Court of Appeals confirmed on August 8, 2018 that a statutory lien, the highest lien form under U.S. Bankruptcy Code, arises automatically by force of a statute or law without any need for further action. COFINA Subordinate Bonds hold a 'funded' statutory lien because pledged sales tax revenue significantly exceeds bond debt service. Retail COFINA Subordinate Bondholders were not represented in the Mediation.

An 85% recovery target has been set for the Island's electric revenue bonds secured with a well-funded sufficient dedicated revenue stream. Bond insurers have squarely rejected a 77.5% recovery rate on Puerto Rico electric debt. In 2013, bondholders of a bankrupt Jefferson County Alabama Sewer Authority accepted an 80 cents on the dollar settlement. Unlike Jefferson County Sewer Authority, COFINA is not insolvent, so it is inconceivable how COFINA Subordinate Bondholders could possibly accept a 56.4% offer.

There is plenty of positive traction at the Island. Over $13 billion of cash sits in the Island's bank accounts. This cash amounts to more than the Island's annual general fund budget. The Island is amid a manufacturing revival, consumer confidence and business sentiment it up. Unemployment hit a 50-year low and cruise ship traffic soared. A grass roots survey of purchasing managers reflects a significant uptick at the Island. Puerto Rico's GDB debt restructuring gained consensus and accord on electric utility debt is moving forward.

"Things on a macro level are finally moving in the right direction," AMBAC CEO noted this week. Puerto Rico could issue new subordinated debt in the future using the COFINA sales-tax securitization structure, PROMESA's Oversight Board said referring to its objective of restoring capital access to the Island. However, COFINA's role as a viable capital conduit for the Island rests on the treatment of [the statutory lien on pledged sales tax granted to] subordinate bondholders. An acceptable recovery rate for the largest secured bondholders, COFINA Subordinate Bondholders, would be crucial for the Island's capital access.

"Before the Agents negotiate away others' interests in property, the Commonwealth-COFINA Stipulation and due process demand that such beneficial holders have adequate notice and an opportunity to be heard," COFINA Bond Trustee Bank of New York Mellon informed the Court that a large percentage of beneficial holders is not a party to the gating Commonwealth-COFINA Dispute or Puerto Rico's Title III bankruptcy.

The Settlement Agreement is an outcome of Wall Street hedge funds profit motives. Their unethical market manipulation is unfair to retail investors. The Settlement Agreement runs foul of PROMESA's goal of respecting bondholder rights and liens and restoring capital access as it casts away the property rights of all COFINA Bondholders.

Chairman Bishop, I would like to request that each party supporting the Settlement Agreement provide purchase price and purchase date of its COFINA Bond positions. That information would be self-explanatory to the retail investor who needs to weigh the proposal prior to casting a vote.

I trust that your office will look into the self-dealing actions of Wall Street hedge funds poised to make huge gains from the low ball 56% recovery offer on COFINA Subordinate Bonds at the expense of the unorganized retail investors.

The COFINA Seniors Coalition was established in 2015 and disclosed their economic interest holdings in Subordinate bonds of $616,000 in August 2017. In August 2018 the COFINA Seniors Coalition held $1.8 billion Subordinate bonds, which will definitely affect the Subordinate bondholder vote.

Why did the Financial Oversight Board put a solvent COFINA in bankruptcy court? Unorganized individuals are the largest holders of Subordinate COFINA bonds. Puerto Rico enacted laws that promised these investors that funds dedicated to pay highly rated COFINA Senior and Subordinate bonds were unavailable to the government. This ill-informed group of individuals is an easy target, a group that could be frightened and manipulated. Should market manipulating tactics be allowed to proceed, it would be a setback for U.S. financial markets known for their integrity and high degree of ethics.

I trust your office intends to become involved in order to uphold the security rights of all COFINA Bondholders to 100% of pledged sales and use tax per COFINA enabling legislation.

Sincerely,

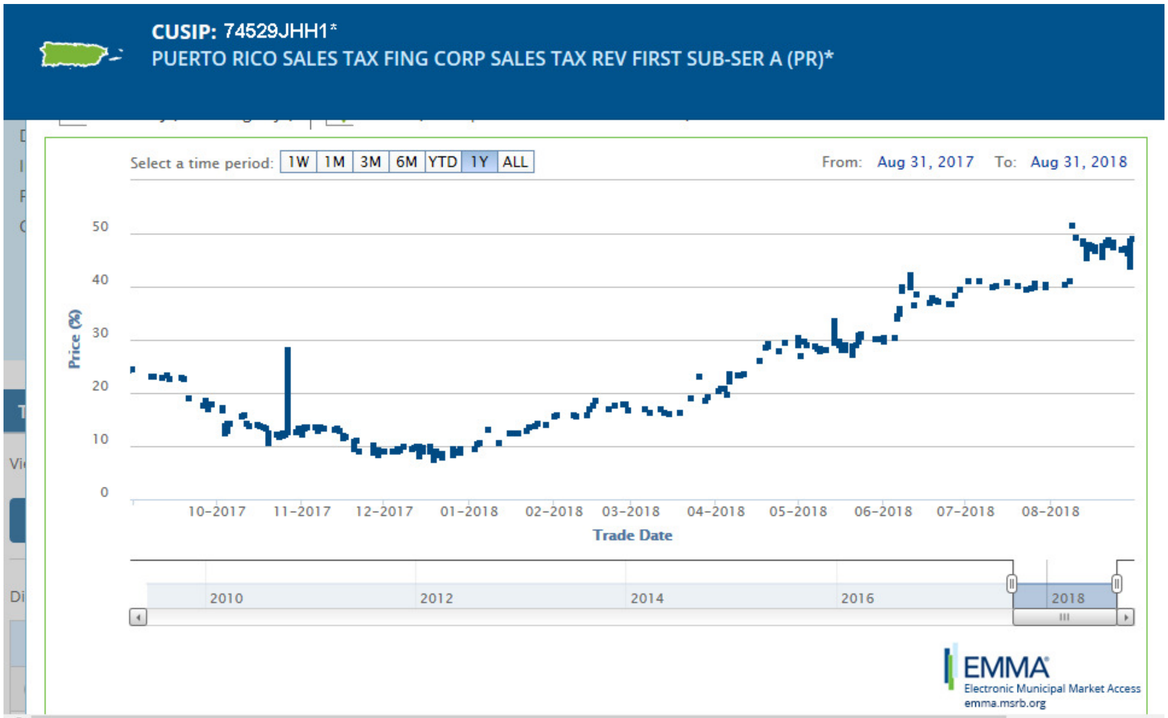
Seema Balwada, CFA

Enclosure:
EXHIBIT A

EXHIBIT A

COFINA Seniors Coalition bought $1.1 billion COFINA Subordinate Bonds at rock bottom prices between August 2017 and August 2018. COFINA Seniors Coalition own $1.8 billion COFINA Subordinate Bonds on August 2018 vs. $616 billion COFINA Subordinate Bonds in August 2017 per Court filings.

<u>COFINA SUBORDINATE CURRENT INTEREST BOND PRICES: AUG 2017 to AUG 2018</u>



<u>COFINA SUBORDINATE CAPITAL APPRECIATION BOND PRICES: AUG 2017 to AUG 2018</u>